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NEW INCOME TAX REGIME- A BOON OR BANE (A STUDY ON PERCEPTION OF INCOME TAX PAYERS OF UDUPI AND MANGALURU DISTRICT)

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ABSTRACT

Tax planning is one of the strategies to reduce tax liabilities in a year. Every tax payer want to reduce the tax liability by utilizing tax exemption, the deduction allowed to various heads of income, etc. Tax Planning is a systematic tool that involves the usage of exemptions u/s 10, Deductions u/s 80 and rebates u/s 87A. The Finance minister of India introduced new tax regime under section 115 BAC in the budget 2020 giving individual assessee and HUF taxpayers an option to pay income tax at lower rates. Income earned from Previous Year (FY) 2020-21 which begins from 1 April 2020, relates to AY 2021-22 is taxed under new tax regime. New tax regime is an option to pay income tax from Financial Year 2020-21. Only few deduction / exemptions can be claimed under new tax regime. Under new tax regime an individual assessee cannot get tax saving benefit by investing money in specified instruments, Medical expenses incurred etc. This paper analyses how new income tax regime impact on the perception of the income tax payers; whether to opt old tax regime or not?

Keywords: *New Tax Regime, Tax Planning, Tax Saving Benefit, Old Tax Regime.*

Introduction

An individual has to pay tax on his total income, in addition to his own income under different heads, he may also have to pay tax on the income of others in his total income. Budget 2020 introduced a new tax regime that contributed another way of paying tax on the Total income of individuals and HUF assessees. The introduction of a new tax regime is a game changer in the tax system of the country. Adoption of old tax regime or new tax regime vested in the hands of the Assessee.

Old Income Tax Regime

Under old tax regime tax is calculated on Total income by taking in to account of Standard deduction, Interest on housing loan of self-occupied house property, deduction u/s 80.

Gross Total Income

It means the total income computed in accordance with the provisions of the Income Tax Act, before making any deduction u/s 80C to 80U. Gross Total income is computed in the following manner:

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First assessable income under each head of income is computed. While finding out the final figure of assessable income under each head, if there are losses from some sources and income from other sources under the same head, such losses are set-off against incomes of the same head from other sources. Then, unabsorbed amount of losses are set-off against incomes under other heads. Thereafter, Carry forward losses, unabsorbed depreciation, etc are set-off according to the provisions of the Income Tax Act. The final figure of assessable income under each head is then aggregated. The resultant sum is known as 'Gross Total Income'.

Total Income

Total income means the amount left after making the deductions under sections 80C to 80U from the Gross Total Income.

New Income Tax regime (Section 115BAC)

The Finance minister Nirmala Sitharaman introduced new tax regime under section 115 BAC in the budget 2020 giving individual assessee and HUF taxpayers an option to pay income tax at lower rates. Income earned from Previous Year (FY) 2020-21 which begins from 1 April 2020, relates to AY 2021-22 is taxed under new tax regime. Under new tax regime no deduction can be claimed for Standard deduction, House Rent Allowance, Interest on housing loan on self-occupied property, Leave Travel concession exemption of ₹ 1,500 per minor child in respect of income of minor child clubbed in the hands of the parent assessee, and other deductions provided in sections 80C, 80D, 80E and 80TTA.However, deduction under section 80CCD(2) shall be claimed. Nearly 70 deductions and exemptions are not allowed under new tax regime.

Procedure for computation of Total Income and Tax Liability under Old and New Tax regime

Computation of Total taxable income of Individuals for the A.Y. 2022-23

Particulars	AMT(₹.)
1. Income from Salary	**XXX**
2. Income from House Property	**XXX**
3. Income from Business or Profession	**XXX**
4. Income from Capital Gains	**XXX**
5. Income from Other Sources	**XXX**
Gross total Income	**XXX**
Less: Deduction U/s 80	**XXX**
Total Income	**XXX**
Add : Agricultural Income	**XXX**
Aggregate Income	**XXXX**

Calculate the tax liability on the Aggregate income as under:

Computation of Tax of an Individual

	₹	₹
A)Tax on income liable to tax at special rate :		
1.Casual Income (Lottery, card game, betting, horse race etc) @ **30%**		Xxx
2.Short-term capital gains u/s 111A @ **15%**		Xxx
(STCG on transfer of equity shares or units in equity –oriented mutual fund).		
3. Long-term capital gains :		
i) On listed securities or units of UTI or a mutual fund – computed		
without indexing the cost of acquisition- **10 %.**		xxx
Ii) Other LTCG – **20 %.**		Xxx
4. LTCG u/s 112A@10% (tax on LTCG arising from sale of equity shares		xxx
Above ₹ 1,00,000)		
B)Tax on other income (Normal rates)		Xxx
(Apply Tax slab on the basis of Age of an Individual)		
		xxxx
Add: Surcharge		Xxx
Add: Health and Education cess @ 4%		Xxx
Gross Tax		**xxxx**
Less : a) Tax deducted at Source(from salaries, interest etc)	Xxx	
b) Tax paid in advance	Xxx	xxx
Net Tax Payable		**xxxx**
Rounded off ……………………………..		

Note:

- If the balance is positive, it represents the tax yet to be paid. The assessee has to pay the same before the due date. If it is negative, it represents the refund due to him. He has to claim this refund by filing a return of income.
- **Rebate of Income Tax (Sec 87A) :** An individual resident in India, whose total income does not exceed ₹ 5,00,000, shall be entitled to a deduction upto ₹ 12,500 from the amount of income tax with which he is chargeable for any assessment year.
- **Rate of Surcharge on Income tax:** Applicable for Individual or HUF/AOP/BOI for the AY 2022-23:

S No	Particulars	Rate of Surcharge on Income Tax
a)	Total income exceeds ₹ 50 lakh but does not exceed ₹ 1 crore (including dividend or income u/s 111A and 112A).	10%
b)	Total income exceeds ₹ 1 crore but does not exceed ₹ 2 crores (including dividend or income u/s 111A and 112A).	15%
c)	Total income exceeds ₹ 2 crores but does not exceed ₹ 5 crores (excluding dividend income or income u/s 111A and 112A).	25%
d)	Total income exceeds ₹ 5 crores (excluding dividend or income u/s 111A and 112A).	37%
e)	Total income exceeds ₹ 2 crores, but is not covered under clauses (c) and (d) above (including dividend or income u/s 111A and 112A).	15%

- **Health and Education cess** is levied at **4 %** on the income tax payable in all cases.
- **Deemed incomes** [(Cash Credit, Unrecorded and unexplained investments, Unrecorded and unexplained money, Unexplained Expenditure, Hundi Borrrowals and Repayments) (under sections 68, 69, 69A, 69B, 69C or 69D)] **Tax shall be charged u/s 115BBE as under:** Income Tax **@60%,** surcharge @ **25%** and HEC **@4%.**

Important Points

- **Total income** must be rounded off to the nearest multiple of **₹ 10**.[Sec 288A]
- **Tax liability** must be rounded off to the nearest multiple of **₹ 10**.[Sec 288B]

Rates of Tax for the PY 2021-22, AY 2022-23

For an Individual (Junior citizen/less than 60 years), HUF, AOP/BOI

Existing (Old) Tax Regime		Alternative (New) Tax Regime U/S 115 BAC	
On First ₹ 2,50,000	NIL	On First ₹ 2,50,000	NIL
₹ 2,50,010 – 5,00,000	5%	₹ 2,50,010 – 5,00,000	5%
₹ 5,00,010 – 10,00,000	20%	₹ 5,00,010 – 7,50,000	10%
Above ₹ 10,00,010	30%	₹ 7,50,010 – 10,00,000	15%
		₹ 10,00,010 – 12,50,000	20%
		₹ 12,50,010 – 15,00,000	25%
		Above ₹ 15,00,010	30%

For Senior Citizens (60 years and above but less than 80 years)

Existing (Old) Tax Regime		Alternative (New) Tax Regime U/S 115 BAC	
On First ₹ 3,00,000	NIL	On First ₹ 2,50,000	NIL
₹ 3,00,010 – 5,00,000	5%	₹ 2,50,010 – 5,00,000	5%
₹ 5,00,010 – 10,00,000	20%	₹ 5,00,010 – 7,50,000	10%
Above ₹ 10,00,010	30%	₹ 7,50,010 – 10,00,000	15%
		₹ 10,00,010 – 12,50,000	20%
		₹ 12,50,010 – 15,00,000	25%
		Above ₹ 15,00,010	30%

For Super Senior Citizens (80 years and above)

Existing (Old) Tax Regime		Alternative (New) Tax Regime u/s 115 Bac	
On First ₹ 5,00,000	NIL	On First ₹ 2,50,000	NIL
₹ 5,00,010 – 10,00,000	20%	₹ 2,50,010 – 5,00,000	5%
Above ₹ 10,00,010	30%	₹ 5,00,010 – 7,50,000	10%
		₹ 7,50,010 – 10,00,000	15%
		₹ 10,00,010 – 12,50,000	20%
		₹ 12,50,010 – 15,00,000	25%
		Above ₹ 15,00,010	30%

Deductions and Exemptions not claimable under the new tax regime

he following are some of the major deductions and exemptions you cannot claim under the new tax system:

- No Deduction for any allowances (except one) including House Rent Allowance
- Standard Deduction ₹ 50,000.
- Professional Tax ₹ 2,400.
- Interest on Housing loan on Self-Occupied House Property ₹ 2,00,000.
- Deduction u/s 80 C, 80D,80DD,80 DDB, 80 E, 80 EE, 80 G, 80 GG, 80 GGC, 80 TTA, 80 TTB,80 U.
- Senior citizen and Super senior citizen excess exemption slab rates.
- Exemption of ₹ 1,500 per minor child.
- Leave Travel Concession.
- Helper allowance
- Children education allowance
- Other special allowances [Section 10(14)]
- Deduction from family pension income

Deductions and Exemptions Claimable under the New Tax Regime

The following are some of the major deductions and exemptions you can claim under the new tax system:

- Transport allowance for specially abled people.
- Conveyance allowance for expenditure incurred for travelling to work .
- 80CCD(2) – Additional deduction under Notified Pension Scheme (upto₹50,000) for contribution made by the Employer.
- 80JJAA deduction for employment of New Employees and
- Depreciation u/s 32 except additional depreciation are available for deduction under the NEW TAX REGIME.

Loss from House Property under the New Tax Regime

No deduction can be claimed in the case of loss of the self-occupied property of ₹ 2,00,000 from salary income.

In case of let out house property, loss arising from the house property cannot be set off in excess of rental income. Also, cannot carry forward the loss from house property to future years for set off.

Deductions from Business Income Under the New Regime

Following items not allowed against business income:

- Brought forward business loss or unabsorbed depreciation of an individual or HUF cannot be set-off from business income
- Business loss and Unabsorbed depreciation under the new regime
- Section 32 - Additional depreciation
- Section 32AD- Investment allowance
- Section 33AB and 33ABA - Sector-specific business
- Section 35-Expenditure on scientific research

- Section 35AD-Capital expenditure under
- Section 10AA- Exemption for SEZ units.

With the help of the following cases let us analyse whether new tax regime is a boon or bane?

Case 1: From the following information compute tax payable (old regime and new regime) by Smt.Akshata(age 51 years) for the A.Y.2022-23:

- Income form House Property (computed) ₹ 80,000.
- Interest on Kisan Vikas Patra ₹ 10,000.
- LTCG ₹ 50,000.
- Income from Business ₹ 10,50,000.
- Agricultural income ₹ 1,00,000
- Amount withdrawn from PPF ₹ 50,000.
- Purchased N.S.C. VIII Issue ₹ 30,000.
- Deposited in PPF ₹ 80,000.
- Life insurance premium paid ₹ 35,000.

Solution

Computation of Total Income of Smt.Akshata for the A.Y. 2022-23

		Old regime	New regime
	₹	₹	₹
1. Income from Salary		-	
2. Income from House Property		80,000	
3. Income from Business		10,50,000	
4.Capital Gains : LTCG		50,000	
5.Income from other sources :			
a) Interest on Kisan Vikas Patra		10,000	
Gross Total Income		**11,90,000**	**11,90,000**
Less : Deduction U/s 80			
1.Sec.80 C:			
Purchased N.S.C. VIII Issue	30,000		
Deposited in PPF	80,000		
Life insurance premium paid	35,000	1,45,000	
Total Income		**10,45,000**	**11,90,000**
Add : Agricultural income		1,00,000	1,00,000
Aggregate Income		**11,45,000**	**12,90,000**

Computation of Tax Liability for the AY 2022-23

Old Tax Regime		**New Tax Regime**	
Particulars	**₹**	**Particulars**	**₹**
Tax on **Aggregate Income** ₹ 11,45,000		Tax on **Aggregate Income** ₹ 12,90,000	
Tax on LTCG ₹ 50,000 x 20%	10,000	Tax on LTCG ₹ 50,000 x 20%	10,000
Tax on Other Income ₹ 10,95,000		Tax on Other Income ₹ 12,40,000	
(11,45,000-50,000)		(12,90,000-50,000)	
First On ₹ 2,50,000	Nil	First On ₹ 2,50,000	Nil
Next on ₹ 1,00,000 (agricultural income)	Nil	Next on ₹ 1,00,000 (agricultural income)	Nil
Next on ₹ 1,50,000 x 5%	7,500	Next on ₹ 1,50,000 x 5%	7,500
Next on ₹ 5,00,000x20%	1,00,000	Next on ₹ 2,50,000x10%	25,000
		Next on ₹ 2,50,000x15%	37,500
		Next on ₹ 2,40,000x20%	48,000
-Tax on balance of ₹ 95,000 (10,95,000-10,00,000= 95,000x 30%)	28,500		
	1,46,000		**1,28,000**
Add: Health and education cess @ 4%	5,840	Add: Health and education cess @ 4%	5,120
(1,46,000x 4%)		(1,28,000x 4%)	
Tax payable	**1,51,840**	**Tax payable**	**1,33,120**

Note: Amount withdrawn from PPF ₹ 50,000 is exempt from tax.

Analysis

In the above case, the tax payable under the new tax regime (₹ 1,33,120) is less than the old tax regime. After claiming deduction U/s 80, her tax liability is ₹ 1,51,840 which is more than the tax liability computed under the new tax regime ₹ 1,33,120. If Smt Akshatha adopts a new tax regime for the computation of tax liability, she can reduce tax liability up to ₹ 18,720. The new tax regime would help to reduce tax liability. The new tax regime is a boon to the individual assessee.

Case 2: The particulars of income of Smt. Suprita (65 Years) for the P.Y. ended 31st March , 2022 are as under :

- Taxable income from the House property ₹ 37,000.
- Profit and Gains of business ₹ 9,80,000.
- STCG ₹ 10,000.
- Capital loss in respect of Long-term Capital Assets being Buildings ₹ 30,000.

Find out the tax payable (old regime and new regime) for the A.Y. 2022-23.

Solution:

Computation of Total Income of Smt. Suprita for the A.Y. 2022-23

	₹
1.Income from Salary	-
2. Income from House Property	37,000
3. Income from Business	9,80,000
4.Capital Gains : STCG	10,000
Gross Total Income	**10,27,000**
Less : Deduction U/s 80	Nil
Total Income	**10,27,000**

Computation of Tax Liability for the AY 2022-23

Old Tax Regime		**New Tax Regime**	
Particulars	**₹**	**Particulars**	**₹**
Tax on **Total Income** ₹ 10,27,000		Tax on **Total Income** ₹ 10,27,000	
First On ₹ 3,00,000	Nil	First On ₹ 2,50,000	Nil
Next on ₹ 2,00,000 x 5%	10,000	Next on ₹ 2,50,000 x 5%	12,500
Next on ₹ 5,00,000x20%	1,00,000	Next on ₹ 2,50,000x10%	25,000
-Tax on balance of ₹ 27,000 (10,27,000-10,00,000= 27,000x 30%)	8,100	Next on ₹ 2,50,000x15%	37,500
		-Tax on balance of ₹ 27,000 (10,27,000-10,00,000= 27,000x 20%)	5,400
	1,18,100		**80,400**
Add: Health and education cess @ 4%	4,724	Add: Health and education cess @ 4%	3,216
(1,18,100 x 4%)		(80,400 x 4%)	
Tax payable (Rounded off ₹ 1,22,820)	**1,22,824**	**Tax payable (Rounded off ₹ 83,620)**	**83,616**

Note : Long Term Capital Loss ₹ 30,000 can be set off from LTCG. Hence c/fd to next year.

Analysis

In the above case, the tax payable under the new tax regime (₹ 83,620) is less than the old tax regime. If Smt. Supritaadopts a new tax regime for the computation of tax liability, she can reduce tax liability up to ₹ 39,200. The new tax regime would help to reduce tax liability. The new tax regime is a boon to the individual assessee.

Case 3: Total Income of Smt. Vaishnavi(34 years) is ₹ 12,25,400 .It includes STCG taxable at 15% amounting ₹ 8,000 and winning from lotteries ₹ 40,000. Find out her Tax liability as per old and new tax regime.

Solution:

Computation of Tax Liability of Smt. Vaishnavi for the A.Y. 2022-23

Old Tax Regime		New Tax Regime	
Particulars	**₹**	**Particulars**	**₹**
Tax on Total Income ₹ 12,25,400		Tax on Total Income ₹ 12,25,400	
Tax on Lottery income (40,000 x30%)	12,000	Tax on Lottery income (40,000 x30%)	12,000
Tax on STCG ₹ 8,000 x 15%	1,200	Tax on STCG ₹ 8,000 x 15%	1,200
Tax on Other Income ₹ 11,77,400		Tax on Other Income ₹ 11,77,400	
(12,25,400-40,000-8,000)	Nil	(12,25,400-40,000-8,000)	Nil
First On ₹ 2,50,000	Nil	First On ₹ 2,50,000	Nil
Next on ₹ 2,50,000 x 5%	12,500	Next on ₹ 2,50,000 x 5%	12,500
Next on ₹ 5,00,000 x 20%	1,00,000	Next on ₹ 2,50,000 x 10%	25,000
-Tax on balance of ₹ 1,77,400 (11,77,400-10,00,000= 1,77,400 x 30%)	53,220	Next on ₹ 2,50,000 x 15%	37,500
		-Tax on balance of ₹ 1,77,400 (11,77,400-10,00,000= 1,77,400 x 20%)	35,480
	1,78,920		**1,23,680**
Add: Health and education cess @ 4%	7,157	**Add:** Health and education cess @ 4%	4,947
(1,78,920 x 4%)		(1,78,920 x 4%)	
Gross Tax	**1,86,077**	**Gross Tax**	**1,28,627**
Less: TDS on Lottery Income (40,000x30%)	12,000	**Less:** TDS on Lottery Income (40,000x30%)	12,000
Net Tax Payable (Rounded off ₹ 1,74,080)	**1,74,077**	**Net Tax Payable (Rounded off ₹ 1,16,630)**	**1,16,627**

Analysis

In the above case, the tax payable under the new tax regime (₹ 1,16,630) is less than the old tax regime. If Smt.Vaishnaviadopts a new tax regime for the computation of tax liability, she can reduce tax liability up to ₹ 57,450. The new tax regime would help to reduce tax liability. The new tax regime is a boon to the individual assessee.

Case 4: Praveen is 62 years old and his Total Income is ₹12,25,000 (after all deductions under old regime) and ₹ 16,45,000 under the New Tax regime. Calculate his tax liability for the PY 2021-22.

Solution:

Computation of Tax Liability of Praveen for the PY 2021-22

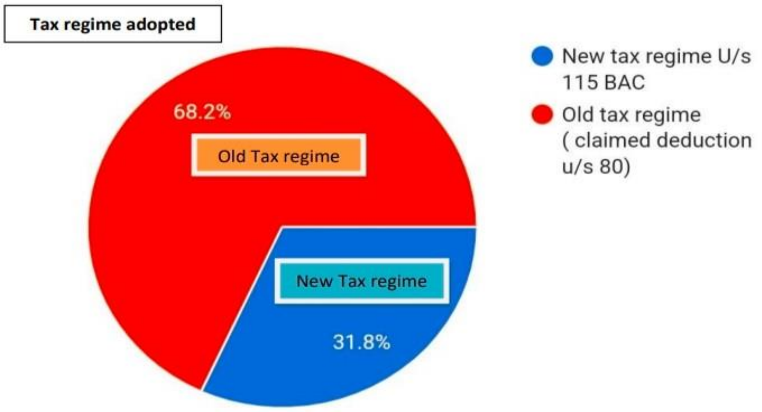
Oldtax Regime		New Tax Regime U/S 115 BAC	
Particulars	**₹**	**Particulars**	**₹**
Income Tax on ₹ 12,25,000		**Income Tax on ₹ 16,45,000**	
On First ₹3,00,000	Nil	On First ₹2,50,000	Nil
On next ₹2,00,000 @ 5%	10,000	On next ₹2,50,000 @ 5%	12,500
On next ₹5,00,000 @20%	1,00,000	On next ₹2,50,000 @10%	25,000
On balance (12,25,000- 10,00,000)= 2,25,000 @30%	67,500	On next ₹2,50,000 @15%	37,500
		On next ₹2,50,000 @20%	50,000
		On next ₹2,50,000 @25%	62,500
		On balance ₹1,45,000 @30%	43,500
	1,77,500		**2,31,000**
Add: Health &Edn Cess @ 4%	7,100	Add: Health &Edn Cess @ 4%	9,240
Tax Liability	**1,84,600**	**Tax Liability**	**2,40,240**

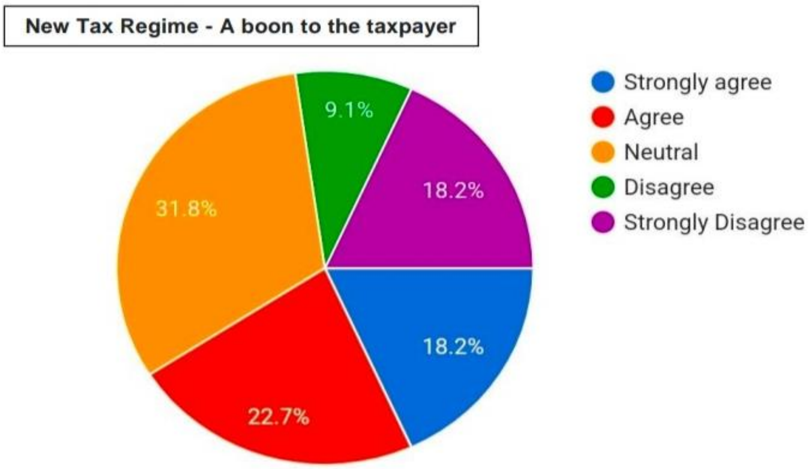
Analysis

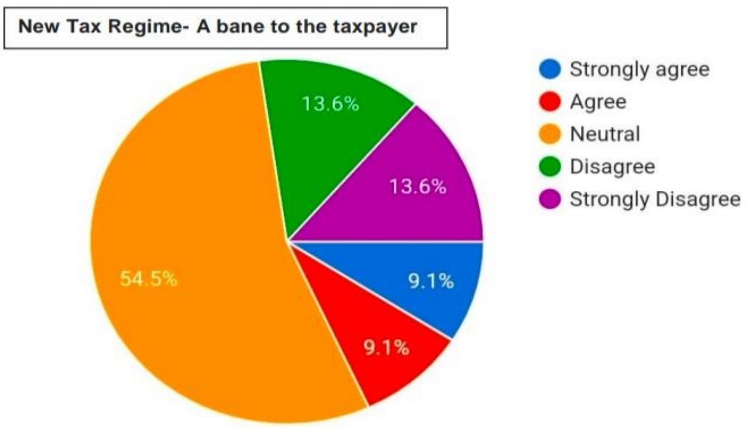
In the above case, the tax payable under the old tax regime (₹ 1,84,600) is less than the new tax regime. If Praveenadopts the old tax regime for the computation of tax liability, he can reduce tax liability up to ₹ 55,640. The new tax regime would not help to reduce tax liability. The new tax regime is a bane to the individual assessee.

Methodology

A structured questionnaire with personal interview method was used to collect Primary data. Data is also collected with the help of Google form and respondent were asked to answer each statement. Mean technique was used to analyze the primary data. The respondents were taxpayers of Udupi and Mangaluru District, Karnataka State. 226 tax payers shared their thought and information. Sampling method: Convenience Sampling. The responded were asked to answer to each statement. Mean technique was used to analyze the primary data. Secondary data was collected through research articles and Books.







Observation from Survey

- 68.2 % of respondents adopted the Old tax regime to pay the tax liability. This shows that the Old tax regime is better than the new tax regime.
- 31.8 % of respondents adopted the new tax regime to pay the tax liability. This shows that taxpayer stick to the old tax regime by taking into account deductions under section 80.
- 22.7% of respondents agree that the new tax regime is beneficial to the taxpayer.
- 18.2 % of respondents strongly agree that the new tax regime beneficial to the taxpayer to reduce the tax liability but the same percentage of respondents strongly disagree that new tax regime is beneficial to taxpayer.
- 31.8 % / 54.5 % of respondents were neutral about the new tax regime.
- 13.6% of respondents disagree that the new tax regime is a bane to the taxpayer.

Result and Implication

The outcome of my research exhibit the following:

- The new tax regime has not become popular among taxpayers.
- The new tax regime allows low tax rates when compared to the old tax regime but this has not been recognized by the taxpayer.
- Taxpayer adopted old tax regime and claimed deduction under section 80 to reduce the tax liability.
- Those who have income from business/ profession adopt old tax regime rather than new tax regime because to them shifting from old tax regime to new tax regime is once in a lifetime.
- New tax regime helpful to salaried employees who do not claim deduction Under Section 80.
- New tax regime is not helpful to the owner of the House property who took a loan for the construction of residential house property.
- New tax regime is not helpful to the businessman who wants set off losses and carry forward to next year.

Conclusion

To conclude, the adoption of new or old tax regimes is in the hands of the Assessee has to decide. While adopting a tax regime he/she should compare his/her income with new and old tax regimes. Whichever is beneficial to him/her that tax regime he/she has to adopt. An individual can shift from one tax system to another only once in a lifetime in case of business income or professional income is included in the Total Income.

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